



Auditor of Public Accounts
Adam H. Edelen

FOR IMMEDIATE RELEASE

Contact: Stephenie Steitzer
stephenie.steitzer@auditor.ky.gov
502.564.5841
513.289.7667

Edelen Releases Audit of Green Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the 2011 financial statement of Green County Clerk Billy Joe Lowe. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

The audit found that the clerk's financial statement presents fairly the revenues, expenditures, and excess fees of the Green County clerk in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The County Clerk's office lacks adequate segregation of duties. During our review of internal controls, we noted the County Clerk's office has a lack of segregation of duties over receipts and disbursements. The County Clerk prints the Point of Sale (POS) daily checkout sheet, prepares the daily deposit, and posts to the receipts ledger. The County Clerk also prepares, signs, and posts all disbursements. Furthermore, the County Clerk prepares all monthly and quarterly reports and performs the bank reconciliations. As a result of the lack of segregation of duties the following occurred:

- Affordable Housing Trust Fund were overpaid to the State Treasurer (See Comment 2011-02)
- Deed Transfer Taxes were not properly remitted to Fiscal Court (See Comment 2011-04)
- Payroll withholdings were not properly remitted to the City
- Receipt and disbursement ledgers were not accurate and complete (See Comment 2011-03)
- 4th Quarterly Financial Report was not accurate (See Comment 2011-03)

Segregation of duties over receipts and disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds and recording and reporting of those receipts and disbursements. Lack of segregation of duties increases the County Clerk's risk of misappropriation of assets, errors, and inaccurate financial reporting.

We recommend the County Clerk strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. However, compensating controls would not be effective over duties performed by the County Clerk. The County Clerk should delegate his duties to other employees and implement compensating controls. The employee providing this oversight should document his or her review by initialing source documents.

County Clerk's response: Duties are segregated as much as possible.

The County Clerk should reconcile the daily checkout sheet to supporting documentation daily. During our review of receipts and daily checkout sheets, we noted the County Clerk uses a point of sale system (POS) to issue receipts and compile the daily checkout sheet. The daily checkout sheet only reports a grand total for each receipt category. Support for each receipt category is maintained on a different computer system, which is used to compile monthly and quarterly reports. The County Clerk reconciles motor vehicle taxes to the state's AVIS system; however, there are no daily procedures to compare all recording and delinquent tax receipt categories with data input into the respective computer system. In addition, there is no backup maintained to support miscellaneous receipts and there was no way to determine what makes up this total.

Reconciling receipts to source documents can help prevent misclassifications and inaccurate reporting. As a result of the County Clerk not reconciling receipts to the supporting documentation, deed transfer taxes reported and paid to the Green County Fiscal Court do not agree to the receipts ledger. As of December 31, 2011, the County Clerk owed an additional \$7,780 to the Green County Fiscal Court (See comment 2011-04). In addition, the Affordable Housing Trust Fund (AHTF) fees reported and paid to the state did not agree to the receipts ledger. The total AHTF fees due the state for calendar year 2011 were \$11,922. The County Clerk remitted a total of \$12,972 to the state. On August 17, 2011, the County Clerk requested and received a refund from the state of \$1,152 which he posted to miscellaneous receipts. In September 2011 the County Clerk decided that he was not due a refund and paid the \$1,152 back to the state. As December 31, 2011, the County Clerk owed an additional \$102 to the state.

We recommend the County Clerk reconcile the receipts collected per the daily checkout sheet to supporting documentation for all recordings and delinquent taxes. We also recommend the County Clerk maintain supporting documentation for miscellaneous receipts. The County Clerk should also reconcile all monthly and quarterly reports to the receipts ledger to ensure accurate reporting.

County Clerk's response: Have made adjustments for this.

The County clerk should maintain accurate ledgers and documentation reconciling the receipt and disbursement ledgers to quarterly financial reports. During our comparison of financial reports and ledgers with the bank account, we noted the County Clerk did maintain separate receipts and disbursements ledgers; however, they were inaccurate and incomplete. Therefore, auditor's had to recap daily checkout sheets for the months of January, July through December 2011 and recap all cancelled checks. In October 2011, the County Clerk implemented a new accounting system for his receipt and disbursement ledgers. During the conversion process receipts and disbursements data was lost and not included in the new accounting system. We also noted the new accounting system did not include the majority of disbursements data for the last two weeks of December 2011. As a result, categories from the receipts and disbursements ledgers did not agree to the 4th Quarterly Financial Report for calendar year 2011. Furthermore, numerous adjustments/reclassifications had to be made to the receipts and disbursements to agree to outside reports, the bank, and any supporting documentation.

Per the Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual, minimum requirements pursuant to KRS 68.210 require the County Clerk to maintain accurate books of original entry and submit an accurate quarterly financial report. We recommend the County Clerk maintain accurate receipts and disbursements ledgers and reconcile those ledgers to the monthly reports and bank accounts to ensure accurate ledger amounts are carried to the quarterly financial reports.

County Clerk's response: Have now begun to compare all monthly and quarterly reports to F.C.A.S.

The County Clerk should properly prepare deed transfer tax reports. During our review of deed transfer taxes, we noted the County Clerk did not properly prepare deed transfer tax reports based upon the amount of receipts collected. KRS 142.050(4) requires the County Clerk to collect the tax and retain five percent (5%) as a fee for collection and remit the balance every three (3) months to the county treasurer. The total deed transfer tax due the fiscal court for calendar year 2011 was \$20,312. The County Clerk remitted a total of \$14,351 to the fiscal court. On July 22, 2011, the County Clerk requested a refund from the fiscal court of \$1,819 which would reduce the amount of payments to \$12,532. As of December 31, 2011, the County Clerk owes an additional \$7,780 in deed transfer tax to the fiscal court. Since the County Clerk overpaid excess fees for calendar year 2011, the \$7,780 due the fiscal court in deed transfer taxes has been netted with the excess fee payment made on March 3, 2011. In the future, we recommend the County Clerk properly prepare deed transfer tax reports and reconcile with his receipts ledger in order to submit the correct deed transfer tax payments to the fiscal court.

County Clerk's response: Deed tax report will be compared to F.C.A.S.

The County Clerk should improve the payroll process. During our testing of payroll, we noted the County Clerk pays his employees every two (2) weeks. We tested one pay period and noted the following:

- One (1) employee did not prepare a timesheet

- One (1) employee did not sign their timesheet
- Four (4) timesheets were not signed by the Clerk indicating approval

KRS 337.320(1)(a)(b)(c) requires that “every employer shall keep a record of: (a) The amount paid each pay period of each employee; (b) the hours worked each day and each week by each employee; and (c) such other information as the executive director requires.” Timesheets should be kept for payroll verification and as a record of leave time used and to document employees are working at least the minimum number of hours to be eligible for full-time benefits such as retirement and health insurance. The employee and the County Clerk should sign all timesheets.

We recommend all employees prepare and sign their timesheets indicating they agree to the report. We also recommend the County Clerk review and approve timesheets documented by his signature.

County Clerk’s response: This process has been taken care of.

The County Clerk should properly pay employees for overtime. During our testing of payroll, we noted the Clerk is not paying his employees for overtime worked over forty (40) hours a week. According to KRS 337.285, an employee shall receive at least one and one half times the hourly wage rate for hours worked in a week in excess of forty (40) hours. Based upon timesheets, we noted three (3) deputies worked over forty (40) hours in a week and were paid the regular hourly wage. We recommend the County Clerk calculate overtime accurately and pay his employees in accordance with KRS 337.285.

County Clerk’s response: When employees work overtime in a day they will be given that much time off in a week.

Auditor reply: This should be reflected on timesheets.

The county clerk’s responsibilities include collecting certain taxes, issuing licenses, maintaining county records and providing other services. The clerk’s office is funded through statutory fees collected in conjunction with these duties.

The audit report can be found on the [auditor’s website](#).

###

The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

For more information, visit auditor.ky.gov and follow Auditor Edelen on Twitter @AuditorKY, facebook.com/AuditorKY and youtube.com/AuditorKY. Call 1-800-KY-ALERT or visit our website to report suspected waste and abuse.